

## **MINUTES**

### **MONTANA SENATE 53rd LEGISLATURE - SPECIAL SESSION**

#### **FREE CONFERENCE COMMITTEE ON HOUSE BILL 029**

**Call to Order:** By Senator Towe, Chair, on December 18, 1993, at 10:57 a.m.

#### **ROLL CALL**

**Members Present:**

Sen. Tom Towe, Chair (D)  
Sen. Steve Doherty (D)  
Sen. Delwyn Gage (R)  
Rep. Bob Gilbert, Chair (R)  
Rep. Mike Foster (R)  
Rep. Jerry Driscoll (D)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Lee Heiman, Legislative Council  
Beth Satre, Committee Secretary

#### **Discussion:**

**Senator Towe** informed the Committee that some technical amendments had been suggested for the current version of HB 29. He asked **Lee Heiman** to explain.

**Lee Heiman** said the 25 percent material in the distribution formula in section one, subsection(3)(a) and (3)(b) should be moved so that (3)(a) would read "if the amount determined under subsection(2)(b) exceeds 25 percent of the amount assessed by mill levies in tax year 1992". He noted the same amendment would also be necessary in subsection(2)(b).

**Representative Foster** said he thought it would be more productive to discuss and negotiate the provisions in HB 29 before addressing any possible technical amendments.

**Senator Towe** acceded to the wishes of the committee members. He first mentioned, however, that the other suggested amendments would one, clarify that the counties would be required to allocate all the funds from their refund on page six, section four, subsection(2) to their usual accounts and two, address a question **Senator Gage** had raised about delinquent taxes. He then asked whether the House members had any general comments about the current version of HB 29.

**Representative Gilbert** replied that HB 29 was, in many aspects, entirely different from the version the House had transmitted to the Senate. He stated at least two of the House conferees disagreed with those changes, which, he noted, was the reason **Representative Foster** had questioned the wisdom of discussing technical amendments in a portion of HB 29 that was contentious. He said the House Republicans disagreed with the Senate amendments to HB 29 that moved the tax threshold from a 10 percent to a 25 percent increase as well as those that provided for a refund of 50 percent rather 75 percent of the excess. He noted the Committee would need to discuss other portions of HB 29 but suggested those areas be addressed first.

**Senator Towe** distributed copies of information on the fiscal impacts of some alternative property tax rebate proposals (Exhibit #1A and #1B). He then explained the Committee could use the material to understand the cost of various options, including that option contained in the Senate amendments.

**Representative Foster** said the Senate had moved from a 10 percent to 25 percent increase threshold, had moved from a 75 percent to a 50 percent rate of refund for property taxes above that threshold, had provided that those rebates would only apply to owner-occupied residential property and to increases in appraisal value not millage. He asked if he had correctly understood the changes the Senate had made. **Senator Towe** replied yes.

**Representative Foster** stated the Senate had "basically" chosen "to stand away from the issue". He agreed, however, the proposal represented an effort to reduce the financial impact and asked how much money it would actually give back to taxpayers. **Senator Towe** replied the refund portion contained \$2,556,412. In addition, he said, HB 29 contained both the provisions of SB 25 that the House had put into HB 45 extending the deadline for filing low income applications for property taxes at a cost of \$1,184,000 to the state. He said there was also a \$1,125,000 appropriation in HB 29 to keep local governments whole. He stated the total amount in HB 29 was \$4.865 million.

**Representative Foster** stated Montanans were faced with a \$134 million property tax increase, an increase which, he emphasized, **Governor Racicot** had originally hoped to counter with about \$37 million in property tax relief. **Representative Foster** said House Republicans had moved off that original \$37 million in the "spirit of compromise" and had agreed to reduce the amount of property tax relief to \$13 million. He noted he did not believe even \$13 million really addressed the issue. He stated \$2.5 million or \$4 million in property tax relief was unacceptable to the House and expressed his hope that the Senate was willing to acknowledge the fact that House Republicans had "come down a long way" from the starting point in their effort to help taxpayers.

**Senator Towe** asked whether **Representative Foster's** primary concern was that the proposal simply did not contain enough

money, not the mechanics or the structure of HB 29.

**Representative Foster** replied the structure and the dollar amounts might not be separable since the structure obviously played a large role in determining the dollar amounts. He cited, for example, the Senate's move from the 10 percent to the 25 percent threshold as well as its decision to ignore Montanans who had experienced millage increases. He stated he did not think it fair to differentiate between those taxpayers who would have trouble paying higher property taxes resulting from increased valuation and those whose tax increase resulted from increased millage. He stated it was "only fair to address the problem".

**Senator Towe** distributed another two handouts to committee members (Exhibit #2 and #3). He explained the first handout illustrated what impact the Senate's action had on total tax, total number of parcels affected, the number of households affected, the county in which those households were located, and the average relief (Exhibit #2). The second, handout he noted, was an alternative the Senate had discussed. Referring to Exhibit #1B, **Senator Towe** explained which refund proposal the Senate had adopted and the costs of that proposal.

**Senator Doherty** stated he was sorry that the House might be inflexible because, he said, both the majority and minority in the Senate were dedicated to the idea of tax relief. The big questions in the Senate, he said, were not "do we want to do something?", but instead "who was going to pay for it?" and "who should receive it?". He noted, however, the sentiment against granting any property tax relief had been considerable and there had been a strong feeling that the whole issue of rebates was being "played as a political inducement to try and buy votes". His community had experienced enormous increases in property taxes over the last five years and nobody, he explained, had come "riding to the people's defense in Great Falls on white horses" nor was there "a hue and cry throughout...Montana to help the people of Great Falls". He admitted there had been "a hue and cry from the people of Great Falls" but stated there had been no statewide response. Those issues aside, **Senator Doherty** said the Senate had made two very specific decisions regarding property tax relief: one, that the least fortunate Montanans should be helped and protected from losing their homes; and two, that any property tax relief should be carefully targeted. As a result, he said, Democrats had made an important concession when they had backed off of means tests as a way of targeting relief to alleviate the real human suffering.

**Senator Doherty** stated, however, a lot of issues remained open to discussion. He emphasized that the Senate's action and proposal did not reflect inflexibility on the part of the Senate but rather the desire to "get something done". He addressed the use of the \$134 million figure, which he said had "been bandied about quite excessively". He stated the actual figure was the increase of about \$20 million per year due to residential reappraisal. He

explained the Senate believed that property taxpayers should be aware of the parties who were responsible for increases in mills; if local governments were responsible, then local government also had the responsibility to explain and justify those millage increases. **Senator Doherty** said the Senate was attempting to "hit the mark"; if the state was responsible for reappraisals and the resultant \$20 million increase in property taxes, he said, providing \$4.8 million of relief was "doing pretty good". He repeated that the Senate was flexible and willing to talk about the amount of money to spend and willing to talk on numbers. He emphasized, however, that the House conferees should be aware that there had been a lot of concessions necessary just to reach the current point.

**Senator Gage** asked whether the Department of Revenue (DOR) could calculate the effect of the change in section three on a county by county basis in a manner similar to the approach used for Exhibits #2 and #3. **Larry Finch**, Program Manager, Office of Research and Information, DOR, asked whether **Senator Gage** were referring to the low income provision. **Senator Gage** replied yes. **Larry Finch** said DOR could provide the number of people by county who were currently participating in the program. He noted that **Senator Gage's** guess would be as good as DOR's as to how participation might increase on a county by county basis.

**Representative Driscoll** addressed the current version of HB 29. He stated he was not interested in making local government whole since they had "gotten all the money" and he would not support that provision. He added that "in the real world of \$50,000 houses" a house would have to be appraised at \$130,500 in order for a property owner to get the \$500 maximum tax credit. The only way that could happen, he noted, was if an owner remodeled without buying a building permit. He said the owners of a house on which the value increased from 50,000 to 70,000 would only receive a \$55 refund in their district, but their taxes would have increased by \$400. He stated it was necessary to reduce the percentage threshold and adopt a cap if the middle class property owner was to be affected. He noted the current formula in HB 29 "was just wonderful for government but not very good for the people who own houses".

**Senator Towe** used the example of a \$200,000 house in Missoula to illustrate what he perceived as the problem with the House's approach. He stated if the valuation on that home increased 33 percent, under the House proposal the tax refund would be \$746 while under the Senate's proposal it would be \$177. If that same house increased in value by 66 percent to \$333,000, he continued, under the House proposal the refund would be \$1817 while under the Senate proposal it would be \$355. He stated he was concerned that the House proposal would give too much money to the very very wealthy and the very high income areas who did not need it. **Senator Towe** then used the example of a \$30,000 house in Missoula to illustrate how the Senate proposal would target lower income people who actually needed the assistance. If the value on that

house increased by 33 percent the tax rebate would be \$26.72, which, he noted was not very much for an increase of \$213. He stated, however, if the value increased by 66 percent the tax refund would be \$133 on a \$427 increase.

**Senator Towe** criticized **Representative Foster's** reference to a \$134 million increase in property taxes, which, he noted, Senate Republicans also had often used. He stated \$55 million of that increase was attributable to mill levy increases which had nothing to do with appraised value. An additional \$9 million, he stated, was attributable to new construction which also had nothing to do with the matter at hand. The "bottom line", he stated, was that only about \$22 million had been caused by increases in valuation.

**Senator Doherty** said he had just made that point. **Representative Foster** noted the \$22 million was an annual figure, so the increase would be \$44 million over the biennium.

**Senator Towe** said if the \$22 million was used instead of \$134 million, the ratio between the amount of money in the House's proposal and the \$134 million was "just about" the same as the amount of money in the Senate's proposal and the \$22 million. He also called the Committee's attention to the most recent Legislative Fiscal Analyst (LFA) budget sheet which showed a \$19,989,000 ending fund balance. He stated if it was necessary to have a \$15 million ending fund balance, the Committee "had about \$4,989,000 to play with", which, he noted was exactly the cost of the Senate proposal.

**Representative Gilbert** stated **Senator Towe's** logic seemed to suggest that since the Legislature had enough money to balance the budget, it should go home without truly attending to the people's desires. He argued that the people were telling the Legislature that they had a problem, although, he admitted, "whether they do or not" was a matter of opinion. He stated he did agree that a problem existed. He stated taxpayers would not care whether their tax increases were a result of appraisals or millage increases, they just felt that they could not afford the magnitude of that increase. He stated the argument that millage increases were built into HB 667, although technically true, did not impress him, nor would it impress the people. **Representative Gilbert** noted that in his county alone there was a \$357,340 increase in appraise value. The \$10,000 the Senate proposal would "generously return" to that county, he said, would be "a slap in the face"; his constituents would find that unacceptable and he, as their representative, could not support such a proposal. He agreed with **Senator Doherty** that the negotiations should not lock down and suggested that the Committee talk about the issues in front of it instead of the different philosophies involved. He defined those issues: one, the House's 10 percent threshold as opposed to the Senate's 25 percent; two, the House's reimbursement rate of 75 percent as opposed to the Senate's 50 percent; three, the Senate's attempt to exclude commercial real

property from HB 29; and four, the Senate's desire to limit rebates to increases on valuation increase as opposed to mill increases as well. **Representative Gilbert** said those four were the basic problems in the Senate amendments to HB 29. He noted some "technical stuff" would also need to be addressed, but expressed his opinion that there was no real problem with the owner-occupied provision currently in HB 29.

**Senator Towe** asked whether the House conferees were talking about more dollars. **Representative Gilbert** replied "certainly". **Senator Towe** asked what the House would propose as a source for those additional dollars. **Representative Gilbert** stated HB 29 would not spend money that the state had coming, instead it would decrease a "tremendous increase", money, which, he added, he felt belonged to the people. He said he did not care if the Legislature had to make more cuts in the budget in order to fund the rebates. He stated he was not "here to protect government", he was "here to protect the taxpayer".

**Senator Gage** referred to the figures **Senator Towe** had run on the \$30,000 Missoula house with the 10 percent and 25 percent increases, noting that if the millage were less in 1992 than in 1993 those numbers would be greater. He stated if Senate Democrats were concerned about targeting the low income homeowners, they would receive "three plus times as much in tax relief" under the House proposal than under the Senate proposal.

**Senator Towe** responded that, given that particular example, **Senator Gage** was right. He noted, however, that was the reason the Senate had also included section three in HB 29 which, starting in 1994, would grant a low income benefit to persons with incomes under \$20,000. He stated the House plan would also rebate more money to people in the middle and upper income, which, he said, he did not think the state had. **Senator Towe** expressed his hesitancy to take more money out of HB 22 because that action would cause more property tax increases next year. He stated just taking money out of one end and putting it in the other was a "cat and mouse game" and inappropriate. He asked whether the other committee members felt it would be more productive to continue to discuss the overall concept or, pursuant to **Representative Gilbert's** suggestion, discuss the individual items.

**Senator Gage** noted limiting the relief going to upper income taxpayers could easily be accomplished with a cap. **Senator Towe** responded a cap was part of the Senate proposal for that reason. He noted, however, that the charts made it obvious that very few people would be affected by any of the caps (Exhibits #1A and #1B). He noted if the concern was to limit the high levels, then caps were necessary.

**Representative Gilbert** stated he had no big problem with either the owner-occupied limitation on the residential portion or the idea of an income tax credit rather than a rebate.

**Senator Towe** suggested the Committee explore the issues of possible agreement. He asked whether the Committee agreed that a tax credit was acceptable. **Representatives Foster and Gilbert** replied a tax credit rather than a rebate was fine.

**Senator Towe** asked whether the Committee agreed that relief could be limited to owner-occupied residences and other class four property could be excluded. **Representatives Foster and Gilbert** replied no, but added the House majority could agree to part of that statement. **Representative Gilbert** explained the residential class four property could be limited with a nine-month owner-occupancy provision. He stated, however, House Republicans could not agree to segregate the commercial class four from residential class four.

**Senator Towe** noted that the House plan, as transmitted to the Senate, had a different treatment for commercial and residential class four properties. He asked whether **Representative Gilbert** was sticking to or retracting from that provision.

**Representative Gilbert** replied it was his understanding that the House proposal did not differentiate between commercial and residential. **Senator Doherty** pointed out that the House proposal contained a \$200 cap for commercial properties. **Representative Gilbert** responded the \$200 cap was fine.

**Senator Towe** asked whether the Committee agreed that property tax relief should only go to owner-occupied residences as far as, he added, residential property was concerned. **Representative Gilbert** replied yes, that was acceptable.

**Senator Towe** suggested, then, the Committee develop a list of the issues of disagreement. He said there was disagreement as to whether benefits should go to commercial property, the 10 percent versus the 25 percent threshold, and the 75 percent versus the 50 percent rate of reimbursement. **Representatives Gilbert and Foster** agreed.

**Senator Towe** asked whether the \$500 cap on residential property was a further item of disagreement. **Representative Gilbert** noted that was an additional area of disagreement, although, he repeated, the \$200 cap on commercial was okay.

**Senator Towe** asked whether any further problem areas existed. **Representative Gilbert** replied yes, the House wanted to include increases in both appraisals and non-voted mill levies and the Senate wanted to exclude millage increases.

**Representative Driscoll** stated he disagreed with giving rebates to local governments. **Senator Towe** noted the rebate to local government only included the money they would have to disburse as a direct result of the low income tax credit extension.

**Representative Driscoll** noted local governments would not have to

disburse that money, they just would not receive it.

**Senator Towe** explained that if the time for filing were extended, the local governments would have to cover those payments, they would keep track of the refunds they had paid and would submit a statement to DOR on May 30, 1994. DOR would, he continued, reimburse local governments for those payments from the \$1,125,000 appropriation. He said in the next year local governments would receive no reimbursement because they would be able to plan their budgets around the estimated \$3.2 million increase in low income benefits resulting from the expanded eligibility brackets for that year. He added that local governments already had their budgets worked out for the current year.

**Representative Driscoll** stated if taxpayers had already made their first half payment, the counties would just adjust their second half payment downward to reflect the low income credit.

**Lee Heiman** explained that the appropriation would only apply to those people who had made their total property tax payment in November. He noted, if they had only made half their payment in November, the amount due in May would be, as **Representative Driscoll** said, adjusted to reflect the low income credit.

**Senator Towe** repeated the cost to the state of the 90 day filing extension would be \$1,125,000. He added that local governments would have to absorb \$3.2 million starting in FY95 because the eligibility requirements would be expanded from about \$16,000 to \$20,000 in income under HB 29.

**Senator Gage** stated that section of HB 29 needed a technical amendment which, as **Senator Towe** had mentioned, would clarify that all a county's political subdivisions would absorb their share of that loss. **Senator Towe** explained that the intent of that provision was the county would receive that money and allocate it according to the established property tax disbursement.

**Senator Gilbert** agreed that the intent was that counties would make the normal distribution and across-the-board to cities and other taxing entities within the county.

**Representative Foster** said the topic of "funding" should be added to the category of disagreements. He noted also that he wanted to make sure he understood all the low income provisions currently in HB 29 before he agreed to them.

**Senator Towe** noted he had assumed that the House conferees would agree to the low income provisions since the House had already approved them in HB 45. **Representative Foster** noted he wanted to make sure that the provisions were identical to those provisions the House had adopted.



**Senator Towe** said they were identical except for the funding provisions. He recognized **Senator Bartlett, Senate District 23**. **Senator Bartlett** stated the low income provisions as they had come back from the House would expand the income brackets and open the eligibility period for reapplication in this year. She said the Senate version would open the application period in this year but would not allow the expanded brackets to take effect until next year. Otherwise, she explained, people would be applying under two different sets of criteria and it would be necessary to recalculate the eligibility amounts for the people who had applied by the original filing deadline.

**Representative Foster** noted that **Senator Bartlett's** comments indicated that the House version was more generous to the low income property owners than the Senate's version in that area. **Senator Towe** agreed. **Representative Foster** said "I guess I do not have any problem with that". He added, however, he did not understand why the Senate conferees "did not want to go" with the House's version in that area.

**Senator Towe** responded the Senate thought it necessary to delay the expansion of eligibility until 1994 because of the additional expense. He explained if that expansion were to be done on a refund basis, it would cost an additional \$3.2 million this year. He noted, either the state would be stuck with the \$4.3 million cost, the \$3.2 million plus the \$1.125 million, or it would have to ask local governments to absorb that amount.

**Representative Driscoll** asked whether the same formula could be used to reimburse local governments as was currently being discussed to reimburse the people. Local governments, he explained, could pay up to a 25 percent increase in cost and the state could reimburse them for 50 percent of their additional costs.

**Senator Towe** agreed that was a possibility. He asked whether the Committee needed to revisit the low income provisions as an area of potential disagreement.

**Representative Gilbert** said the Committee had outlined the major issues and suggested the best next step would be for committee members to go to their respective caucuses and meet with their respective leadership to discuss those issues. He noted that in those discussions other issues might arise since any adjustment might have repercussions on another area.

**Senator Towe** asked whether the low income provisions should be considered an area of agreement or disagreement. **Representative Gilbert** responded he would rather not simply agree to the low income provisions. He stated the House Republicans wanted to help out the low income people and did not care "at all" about what those provisions would cost local government because they did not represent local governments.

**Senator Doherty** agreed that the Committee had outlined the major areas of contention, and, he added, should ask DOR to run some additional cost projections for various options. He noted the Committee already had runs based on the 10 percent and the 25 percent level and might need some runs that were inbetween. He noted additional information might also be necessary on the millage question. He said there were a lot of variables in the issues at hand and noted the process "kind of" reminded him of HB 671, where it had been possible to work out those variables.

**Representative Gilbert** said he thought the free conference committee on HB 671 had used one good basic run and then had done its own multiplying. He suggested that would also work in this case.

**Representative Foster** cautioned committee members not to limit the Committee's discussion since something that had not yet been addressed might "clearly come up".

**Senator Towe** agreed. He reiterated the points of agreement and disagreement that the Committee had outlined. He asked whether anybody wanted to add anything or request any more information.

**Representative Driscoll** noted he would also like to have information on the costs of 100 percent reimbursement with caps.

**Senator Towe** asked **Larry Finch** to indicate whether DOR could run the information requested by Committee members and to indicate when that information would be available. **Larry Finch** replied he understood the Committee was requesting two basic runs, one with costs as they apply to increases in appraised value and one with costs as they apply to both increases in appraised value and mill levies.

**Senator Towe** agreed. He asked whether there were any other requests. **Senator Doherty** raised the possibility of using compromise numbers.

**Representative Gilbert** responded nothing should be ruled out at this point, but suggested that the Committee use even numbers. He noted complicated fractions would just elongate the equation and then be finally rounded off anyway.

**Recess and Reconvene:**

**Senator Towe** recessed the Committee at 11:55 a.m. He reconvened the meeting at 1:20 p.m. with all committee members present.

**Discussion:**

**Senator Towe** informed the Committee that it would be another hour before it would receive the numbers it had requested from DOR. He suggested that the Committee could none-the-less attempt to narrow any of the differences it had previously outlined.

**Representative Driscoll** suggest the Committee address the inclusion of commercial property with the already established \$200 cap.

**Senator Towe** responded he personally had "much less desire to move in that direction". He stated he would prefer that \$200 go to homeowners instead of commercial entities. He asked whether the House conferees had discussed the issue of low income provisions with their caucus. **Representative Foster** replied his caucus members "tended to prefer the House approach to low income".

**Senator Towe** asked even though that would mean an additional cost of \$800,000 to the state and \$3.2 million to local government.

**Senator Doherty** asked whether the difference in cost between the Senate and House version was \$4 million. **Mick Robinson, Director, DOR,** agreed that the difference was \$4 million.

**Senator Towe** noted that, according to the updated fiscal note, the House proposal would cost \$14 million.

**Representative Foster** asked what the difference on just the low income dollars would be. **Senator Towe** replied that raising the eligibility from \$16,000 to \$20,000 income would cost \$4 million per year. He said that only \$800,000 of that amount would actually be a cost to the state, the remainder, he explained, would be a cost to the counties.

**Senator Gage** asked whether the eligibility expansion would be permanent or only apply to the current biennium. **Senator Towe** replied it would be "on an on-going basis".

**Senator Gage** asked whether HB 29 would affect the current year of the biennium. **Representative Foster** replied yes.

**Representative Gilbert** noted that the low income provision that came out of the House was actually a compromise between Republican and Democrat House members. He stated the House conferees held that version "near and dear" because they really wanted to help all people who had been affected. He noted the

House could not "just...give up on that".

**Senator Towe** asked whether **Representative Gilbert** intended that local governments absorb their 75 percent of the \$4 million cost. **Representative Gilbert** replied not necessarily. He stated the House had plans and programs in other bills which would fund all of the ideas approved by the House. He said the House might be asking the Senate to accede to some of it's funding ideas which, he noted, were as negotiable as the other issues currently on the table. He expressed his hope that there would be a positive reaction.

**Senator Towe** stated no one should throw out anything as non-negotiable at this point. **Representative Gilbert** agreed. **Senator Towe** said "very good". He noted, however, that such a proposal would be difficult. He said he was a "little nervous" about asking local governments to absorb \$6.4 million in costs for the current biennium.

**Representative Gilbert** said counties would actually be asked to take \$6 million less from the increase that "they were getting that we had not planned on". He said House Republicans viewed the other perspective as mistaking a windfall to local governments that they really did not deserve as a cost to government. He agreed that point could be argued in reference to HB 667 money, but the other portions of those increases were unplanned and unexpected.

**Senator Towe** agreed, except, he added, to the extent that it involved new construction and values that were not connected with an increase in the value of people's homes. He identified the problem, rather, as the fact that those local governments which did not have a big increase would have to absorb some of that loss. He noted, it would be nice if it were possible to figure out how to distribute the \$3.2 million or the \$6.4 million biennial cost in such a way that it would go to those counties like Flathead and Lake which had actually received the biggest increases.

**Representative Gilbert** suggested that the formula in the HB 20 funding proposal might be the answer to that problem. **Senator Towe** responded he thought that was a good idea but asked whether it could be applied to the issue under discussion. He explained that proposal was already structured through the personal property reimbursement and already involved refunds or reimbursements. If that formula were to be used, he noted, the state would have to collect that money and return it to the local governments in some way.

**Senator Doherty** asked what input local governments had given when the House had reached its compromise on the low income provisions. **Representative Gilbert** responded that compromise had been reached on the House floor. He assured **Senator Doherty**, however, that he could "rest assured that local governments would

object to losing any funding". He added that they would probably not object if the Legislature "took money from someone else to reimburse them".

**Representative Driscoll** commented that in the House Committee the local government people had reluctantly supported the amendment. When they later discovered that he had made that provision on-going, he noted, they did not like it. He said they wanted that provision to apply for only one year.

**Senator Gage** stated there was another side to the issue that had not yet been addressed: the reduction in non-mill revenues with which some local governments were faced. As an example, he referred to his district where the local government severance tax fund was down and local governments had used a substantial amount of money from a Union Oil net proceeds tax audit to keep mill levels down from 1991 to 1992. The result, he stated, was that in the current year taxpayers received "a double hit" because local governments were forced not only to "pick up" what they had reduced from 1991 to 1992 but also to make adjustments for fewer non-mill revenues. He stated a number of reasons for increases in mill levies existed that were not at all related to appraisal.

**Senator Towe** asked a House conferee to explain the formula the House had used when it allocated the \$3.9 million of personal property reimbursement according to the districts which had the biggest increase. **Representative Driscoll** explained the formula. He said the total amount of new money each local government received in dollars was divided by \$53,681,000, which, he explained, was the total tax increase statewide minus the state's share. He said the product of that was multiplied by 4.5 because the House wanted \$4.5 million. He noted the actual amount of money came out to \$3.9 million because some taxing jurisdictions would have owed more money than they would have received and the House had decided to forgive their additional obligation.

**Representative Driscoll** emphasized that the formula was based on the new dollars that each taxing jurisdiction received, no matter what the source. He stated the point was that local governments spend dollars not mills and, if a taxing jurisdiction had more dollars, its reimbursement from the \$4.5 million would be reduced by its percentage of the total dollar increase in the state.

**Senator Towe** said, if, for example, a taxing jurisdiction had no increase whatsoever then they would have no reduction in their reimbursement. **Representative Driscoll** agreed and noted there were three places in the state where that had occurred. He said in Bighorn County mills decreased from 62 to 31 and it would not have been fair to punish them after they had cut their mills so substantially. He added, however, that some of the local jurisdictions and school districts in Bighorn County would take reductions, but the county itself would not.

**Senator Gage** stated **Representative Driscoll's** scenario contained two fallacies when it was applied to his area: the non-mill

revenue reductions he had already discussed, and the decrease in valuation on the reservation. He stated because of those decreases on the reservation, the county had to increase mills on the off-reservation homeowners to make up for that difference.

**Representative Driscoll** asked whether the county had gotten more dollars since, he repeated, the formula used dollars not mills. **Senator Gage** replied the county had received more dollars because of the non-mill revenue which was not at all considered.

**Representative Driscoll** said the formula had also not taken into consideration those taxing jurisdictions, like Billings, that got more dollars from "franchise fees" of four percent on purchases. And, he added, increased revenues from poker machines were not considered either.

**Senator Towe** said he liked the idea of distributing "the pain" to local governments according to that kind of a formula. He asked how that idea could be applied to the low income area since bringing in the higher eligibility for 1993 would be a \$3.2 million cost that would need to be allocated to local governments. He explained the state just needed to intercept the HB 20 monies going to the local governments to take these reductions out, but, he asked, when the money was not starting at the state level, how could that pain be distributed.

**Representative Gilbert** said perhaps the Committee needed to discuss different funding sources which the state could use to raise money and reimburse. He noted a few proposals did exist: the liquor privatization bill; possible cuts in HB 2; and the Cultural and Aesthetic Projects Trust Fund (Arts Trust) money. He stated he personally preferred the Arts Trust and noted "we sort of chickened out on that one because of some political pressure". He reminded the Committee that the \$5 million in Department of Transportation (DOT) highway funds was another possible source. He repeated that choices were available if the Committee and the Legislature were "willing to make the hard choice". He said that was why committee members were participating in the process of negotiation in case an agreement could be reached on some of those funding sources to take the burden off of local government. Or, he noted, local government could "take the hit".

**Representative Driscoll** asked the House Republicans to consider agreeing to the second year. He explained the way the House had changed the schedule, a person who had already applied and was eligible for a refund would have to reapply because they would be eligible for a greater amount of relief. He stated the two year plan could be a "bookkeeping nightmare" and some people would miss it and, as a result, be unfairly treated. He said he understood the logic of moving the expansion into the next year because of the timing of the special session.

**Representative Gilbert** replied the House Republicans would

certainly consider **Representative Driscoll's** comments, but, he added, would make no commitment.

**Senator Doherty** noted the Committee could also find money in the personal property reimbursement of \$3.9 million. The question then would become, he noted, who would "bear the hit".

**Representative Gilbert** asked **Senator Doherty** if he were talking about HB 20 money. **Senator Towe** responded **Senator Doherty** was talking about HB 20 money. **Senator Towe** suggested the possibility that the Legislature approve the \$3.2 million reduction in the second year and refund that entire amount to local governments in the manner that HB 45 had provided. He said **Representative Driscoll's** formula could be used to take a like amount out of the HB 20 monies which would, he said, hold "these folks whole" while simultaneously distributing the pain according to the counties which had received the money from increased property taxes. He noted that would be a "much more equitable distribution" and that he liked that idea.

**Representative Gilbert** said he could "sort of follow the theory" that **Senator Towe** had just outlined. He asked, however, that someone illustrate how that would work and what the dollar amounts would be so that he could look at that suggestion in "black and white".

**Representative Driscoll** said House Republicans should go back to caucus and see if there were any votes for starting that expansion in the second year before any one ran those calculations. He noted if the Republican caucus agreed, there would be no \$3.2 million cost in the first year. **Representative Gilbert** agreed.

**Representative Driscoll** said the delay represented no cost since the \$3.2 million under discussion would be for the present year. **Senator Towe** replied no. He explained that the Governor's Property Tax Advisory Committee (PTAC) had recommended increasing the eligibility requirements in the second year of the biennium which would cost local governments about \$3.2 million and the state \$809,000. He stated the \$4 million cost was already considered and incorporated into the numbers the Committee had been discussing.

**Representative Driscoll** commented that if the local governments were absorbing \$3.2 million in costs and their reimbursement was lowered by \$3.9 million it would not keep them "quite whole". He noted that was alright with him.

**Senator Towe** agreed that did represent a possible way of picking up another \$700,000 that could be used to move up the rebate numbers. He added, however, he was suggesting that those numbers be made exactly the same, using the \$3.2 million instead of \$3.9 million. He noted checks would be sent to the state and the state would reduce the checks it was issuing by a like amount.

**Representative Driscoll** indicated he understood **Senator Towe's** point, but asked why it was necessary to write so many checks if the money was just being exchanged. **Senator Towe** responded different parties and different people would be receiving the money. **Representative Driscoll** agreed that the money could be distributed differently statewide.

**Senator Towe** stated the money would be differently distributed so the state would issue a check to 56 counties for, in effect, the \$3.2 million. He said those checks would then be distributed to all the different agencies according to the usual formulas. Then, he continued, when the state issued the HB 20 monies, those checks would be reduced by \$3.2 million.

**Representative Foster** repeated that the House Republican conferees would present the idea to their caucus. He noted that **Representative Driscoll** had earlier brought up the topic of including commercial property with the \$200 cap. He said that topic had not been discussed and wondered if the Senate might be interested in agreeing to that point.

**Senator Towe** spoke against addressing that area because, he stated, that would be one of the "very last items" he would want to discuss. He stated he would rather use that money to assist homeowners who really needed the help. He added, the \$200 cap would restrict any possible gain for commercial enterprises. He suggested the Committee first talk "about the numbers".

**Representative Gilbert** stated House Republicans were not so concerned about the large industries. He agreed that the \$200 rebate larger companies would receive would be "nothing", although, he emphasized, the message that the state would thereby send would be important. He noted that a \$200 rebate could make a difference for the small "mom and pop" businesses which were running on a very low margins of profit. He stated he really was most interested in addressing the "little independent main street businesses" but, he said, the state could not discriminate; if it was going to help a business, it would have to help all business and if it was going to help a homeowner, it would have to help all homeowners.

**Senator Towe** responded that the small commercial entrepreneurs would live in a home that they most likely owned. He said if the Legislature could benefit them in their homes, it would not have to pay all big commercial establishments. He also pointed out that one reason he was real reluctant to go "too strong" on any credit was that such a policy would shift inevitably the burden to someone else. He explained appraisals statewide were fairly accurate and according to the market value, homeowners should be paying the tax on their appraisal. If credits were granted to certain taxpayers, he said, then the income taxpayers or some other taxpayers would have to make up the difference. He stated he did not agree that the people in eastern Montana, where there was not such a great increase in values, should have to pay more



taxes so that the people in Flathead and Lake Counties could have a tax reduction.

**Representative Gilbert** stated that Richland County had experienced the 10th highest increase in Montana. He noted that Richland County was "just as damned east as you can get".

**Senator Gage** commented that the "mom and pop" entrepreneurs would have received a double hit: once on their residential property taxes and once on their commercial property taxes.

**Representative Driscoll** asked committee members to consider whether or not it was necessary to worry about the loss of the \$3.2 million. He explained if the Committee agreed to expand the low income eligibility categories in the second year only, then there would be no \$3.2 million loss to local governments because by 1994 there would be new things for local governments to tax and their total tax collections should go up commensurate to the decrease.

#### Recess and Reconvene:

**Senator Towe** recessed the meeting at 1:55 p.m. He reconvened the Committee at 4:35 p.m. with all members present.

#### Discussion:

**Senator Towe** distributed the information DOR had compiled at the request of the Committee (Exhibit #4 and #5).

**Senator Doherty** stated the Senate Democrats were interested in providing property tax relief and outlined a new proposal which would put about \$10.4 million of property tax relief into the pockets of Montana property taxpayers. The proposal, he said, would calculate tax credits to owner-occupied residences using appraised value and paying 50 percent of any increase in excess of 10 percent with a \$500 cap. He pointed out the Senate Democrat's movement from their original position of paying rebates on increases in excess of 25 percent. He stated the cost of the rebate program he had just identified would be \$3.525 million per year (Exhibit #4), and, he said that, along with the money already in the low income program, would amount to about \$8 million in property tax relief from the state and an additional \$2.4 million from local governments. **Senator Doherty** noted the money for state's portion of the proposal would come out of the ending fund balance, which, as a result, would be reduced to approximately \$15 million. He stated Senate Democrats believed that ending fund balance was a responsible amount given the contingencies that could affect the budget. In addition he explained the Senate Democrats' philosophical reasons for continuing to use only appraised value. He said a large portion of the increase in property taxes in Montana was directly

attributable to decisions made by county and city governments and school trustees and, he stated, local people who were concerned about those increases "ought to know where to go either to complain or to congratulate those responsible officials". He stated the tax shift that inevitably accompanied any rebate program was another reason to use only appraised value; people in one part of Montana who have had responsible public officials who have kept their expenses down, he explained, should not be paying for property tax relief for people in those counties who have not had officials who have kept their expenses down.

**Senator Towe** asked whether the House conferees had any comments.

**Representative Gilbert** quickly ran through the provisions in the proposal. He noted that the proposal would address neither tax liability attributable to mills nor commercial property. Further, he said, residential relief was capped at \$500 and the expansion of the low income program was limited to 1994.

**Senator Towe** agreed. He stated the Senate Democrats' proposal contained \$10 million worth of tax relief. He noted "an awful lot of Democrats" were of the opinion that \$10 million was too large of a tax shift away from owners who probably had more valuable property and could afford to pay, to those who very possibly could not. He said his caucus was prepared to put that proposal on the table anyway in order to reach agreement.

**Representative Gilbert** responded the House majority would have some problems with the proposal. He stated, however, the idea was to negotiate not "to throw down the gauntlet". He noted that the funding source identified in the proposal was strictly the ending fund balance, and asked what that current balance was and how the proposal would affect it.

**Senator Towe** responded the last LFA sheet showed a \$19.9 million ending fund balance. If the additional cost of the proposed rebate program to the state was calculated, he said, the ending fund balance would be \$17.2 million.

**Representative Gilbert** noted he had been informed by the Office of Budget and Program Planning (OBPP) that the ending fund was about \$24.2 million. He asked **Dave Lewis, Director, OBPP**, to comment. **Dave Lewis** explained the ending fund balance was \$24.2 million without calculating in any property tax relief. He noted **Senator Towe** had based his \$19.9 million figure on the assumption that \$5 million in relief was already on the table in HB 29. **Senator Towe** concurred. He explained the ending fund balance would be \$24.7 million if the \$4.8 million in HB 29 were added to the \$19.9 million figure on the LFA sheet. He said the proposal from the Senate Democrats would be an additional cost of \$7.553 million to the General Fund which, he calculated, would bring the ending fund balance to \$17.2 million.

**Representative Driscoll** stated the sheet that came out of the

budget office at 9:21 a.m. that morning had listed a balance of \$24.7 million after the free conference committee on HB 2 had taken action. He asked why that number had changed. **Senator Jacobson, Chair, Free Conference Committee on HB 2**, responded her committee had changed some of the revenue appropriations in HB 2. She estimated that the net change had been about \$200,000 in additional spending.

**Representative Driscoll** noted then that the ending fund balance was \$24.5 million before any property tax relief, and repeated that the current proposal would cost the state \$7.53 million which would leave approximately a \$17 million ending fund balance.

**Representative Gilbert** stated the proposal was "certainly...a good starting point". He expressed his and **Representative Foster's** agreement with limiting the low income portion to 1994 and calculating refunds using increases in excess of tax year 1992 plus 10 percent with a 50 instead of 75 percent rate of reimbursement. He stated, however, after that point they would "start having problems".

**Senator Towe** asked whether they agreed to the \$500 cap. **Representative Gilbert** replied they "had a problem" with the cap because it would adversely affect about 200 families who, even though they seem "fairly well fixed" also had some "pretty strong obligations", like, for example, children in college. He said the preference of the House Republicans would be no cap, which, he added, would only cost an extra \$75,000. In addition he stated House Republicans felt it very important that commercial property needed to be part of the equation at a \$50 minimum and a \$200 maximum. He noted that a \$25 minimum would apply to residential relief.

**Senator Towe** agreed that the Senate Democrat proposal had also assumed a \$25 minimum for residential tax relief.

**Representative Gilbert** said House Republicans were "real uncomfortable" about basing rebates on increases in property valuation alone and would prefer that millage be included in the equation. He stated "a tax increase [wa]s a tax increase" regardless of its source. He referred to Exhibit #5 and noted the additional cost associated with millage was not "all that significant".

**Senator Towe** stated the additional cost would be about \$1.2 million over the biennium.

**Representative Gilbert** repeated the numbers were not significant. He stated it was the message that including both commercial and mill increases in a property tax relief program would send to the public which would be significant. He said main street business people would know that the Legislature acknowledged their problems. He noted HB 29 would also limit tax increases for two

years and \$200 could also be significant to a small business person who was struggling. He stated the House Republicans also felt it important to use the HB 20 money as a source of funding for property tax relief. He said that amount would be \$3 million using **Representative Driscoll's** formula to allocate those reimbursement reductions to counties.

**Representative Foster** responded to **Senator Doherty's** comment that local officials needed to be held accountable for their share of the tax increase problem. He stated the local electorate would do that in the future, but the Legislature needed to address the immediate problem. He stated it was important to consider using the HB 20 property tax reimbursement money because the formula **Representative Driscoll** had helped to develop would allocate reimbursement reductions to those entities which had contributed to the problem in the percentage that they contributed.

**Senator Gage** asked **Representative Gilbert** if he had the cost of property tax relief for commercial property. **Senator Towe** stated that cost would be \$2.7 million over the biennium.

**Senator Gage** said it appeared that the difference in cost between using only appraised values at 50 percent with a \$500 cap and using total tax liability with no cap or a \$1000 cap would be about \$1.9 over the biennium.

**Senator Towe** stated he had calculated the cost difference between appraised value and total tax liability at \$1.2 million over the biennium. He explained the multiplier was 1.5 not 2 for the biennium since the last fourth of any property tax relief would fall into the first year of the 1995-1997 biennium. He referred to Exhibit #5 and asked **Representative Gilbert** if the cost associated with the residential part of his suggested proposal was the \$4,387,141 million in the 10 percent block under 50 percent. **Representative Gilbert** replied yes.

**Senator Towe** noted the cost of that portion of the proposal would be \$6.58 million for the biennium. He noted if the \$2.7 million biennial cost for commercial property, the \$1.164 million cost to the state for low income tax relief, and the \$1.125 million appropriation for local governments during the first year were added to the \$6.58 million, the cost of the House Republican's proposal to the state would total \$10.569 million.

**Representative Driscoll** questioned the need for the \$1.125 million appropriation to local governments for the first year since, he said, the House Republicans had agreed to that program only applying in 1994. **Senator Towe** explained the \$1.164 million included two things: about \$300,000 for extending the application deadline for 1993 by 90 days after the act's effective date and about \$810,000 for expanding the eligibility for 1994. He noted that appropriation was already in both the House and Senate version of HB 29. He noted the House had also included the eligibility expansion for 1993 as well, but that cost was not

reflected in the \$1.125 million appropriation he had mentioned. He repeated the cost of the House Republicans current proposal was about \$10.57 million and asked how much of that the House planned to fund with HB 20 monies.

**Representative Foster** responded the plan would net out to about \$3 million.

With that amount **Senator Towe** said that proposal would end up reducing the General Fund by about \$7.5 million. Since the current ending fund balance was \$24 million that effect would be approximately equal to the effect the Senate Democrats' plan would have on the ending fund balance.

**Representative Gilbert** noted his figures showed an ending fund balance of about \$16.2 million for the House Republican proposal.

**Senator Towe** addressed the issue of a cap. Citing an example of a house in Missoula which increased in value by 66 percent from \$200,000 to \$333,000, he said that property owner would receive a tax credit of \$1211 on a tax increase from \$4273 to \$7124 without a cap. He noted that property owner did not need the money and stated he would prefer a \$500 cap because, he said, then only the people who really needed the money would be getting the money. He said the DOR information showed that the cap would not save a lot of dollars, but, he added, that also meant that there was not a lot of people who would receive credits in excess of \$500.

**Representative Gilbert** replied he understood **Senator Towe's** rationale. He stated, however, it was unfair to use the Missoula example because Missoula had 500 plus mills where the statewide average was considerably lower. It made it appear, he noted, that the state would be giving larger rebates than it really would on a statewide average. He agreed that the Committee was dealing with individuals, but suggested the better examples would be Lake, Flathead, or Richland counties. He repeated, however, the dollars amounts were, to a large extent, not significant.

**Senator Towe** expressed his concerns about including commercial property in property tax relief. He said the Senate Democrats had "stretched" as far as was possible to get a "maximum and absolute maximum impact" for those resident homeowners who needed help. He stated "giving a pittance to commercial property owners" would not provide as much benefit. In addition, he said he remained bothered about the nature of the tax shift which would accompany the use of mill levies as well as appraised value. He noted that shift would be from those homeowners with valuable properties who could therefore probably afford to pay, to those who could not. He stated excluding millage would send a critical message to local governments that the state would not pick up their problems every time they increased mill levies. He concluded, however, that he thought the HB 20 funding mechanism had merit.

**Representative Driscoll** stated he had been a strong supporter of caps until he had reviewed DOR's information (Exhibit #4 and #5). He stated the difference between no cap and a \$500 cap in the Senate Democrats proposal was only \$68,000 statewide. **Senator Towe** agreed. He added that only "very few" people would take advantage of any credit in excess of \$500. **Representative Driscoll** noted he did not want to "sit here for another hour for \$68,000".

**Senator Gage** asked **Senator Towe** how he could justify using \$3 million in HB 20 money if mill levy increases were not included. **Senator Towe** replied the HB 20 funding was not part of the Senate Democrats' proposal. He said he had been reacting to each of the areas of contention, and, he added, that was one of the House Republicans' proposals that he could "probably embrace in some fashion".

**Senator Gage** said he had understood **Senator Towe's** comment to indicate that he would be amenable to using the HB 20 money but not amenable to including the entire tax liability.

**Senator Towe** responded he would like to consider the total package, and expressed his hope that the Committee could "make a movement" and settle the issue. He stated the people had a right to see the issue of property tax relief settled. He said there were four items of contention and asked the House Republicans whether they would yield on the commercial and the mill levy inclusion if the Democrats yielded on the cap and the funding source.

**Representative Gilbert** replied "not at this time". He then returned to the issue of property tax relief for commercial property. He noted that **Senator Towe** had commented that he wanted to maximize the payback to residential homeowners at the expense of the business property owners. He stated most business property owners had actually received a double hit from the 1993 tax increases which, in all fairness, both needed to be addressed: once for their house and once for their business property. He agreed that the \$200 tax credit to larger businesses was symbolic not significant, but, he added, that \$200 would be more than symbolic to those small business owners whose residential and commercial property taxes had increased. Those property tax increases, **Representative Gilbert** argued, were a cost that those business owners had to pay out of their pockets and business profits and, he stated, would certainly affect their budgets. He also addressed the issue of including mill levy increases in the calculations. He noted it did not matter what caused the dollar amount of the tax to go up, the citizen had a larger tax bill. Instead of fixing the blame, he stated, the Legislature needed to address the actual problem which was the tremendous increase in tax liability to property owners in Montana regardless of the reason.

**Senator Doherty** suggested the Committee summarize the two

proposals and find out how far apart they actually were. He said the House Republicans wanted to include commercial property at the cost of \$2.7 million and to include mills with no cap at an additional annual cost of \$900,000. He verified that the House Republicans would agree to the Senate low income proposal, and, he added, that the House Republicans would pay for part of the program with some HB 20 monies redistributed according to the formula developed by **Representative Driscoll**. He asked how far the two proposals were apart in dollars.

**Representative Gilbert** responded that **Senator Towe** had indicated that the Senate Democrat proposal would cost about \$10.4 million over the biennium while the House Republican proposal would cost \$11.7 million. He noted that figure included the low income provisions but not the \$1.125 million appropriation.

**Representative Driscoll** asked what that \$1.125 million appropriation was. **Senator Towe** responded the \$1.125 million was to reimburse the counties and local governments for the 90 day extension of the 1993 application deadline for low income taxpayers who had missed the filing date because they did not know what their taxes would be. He explained the \$1.125 million would hold counties whole in 1993 because they had already fixed their budgets. He stated he had calculated the total cost of the Senate Democratic plan at \$10 million, \$7.6 million to the state plus \$2.4 million to be absorbed by the local governments in 1994. According to **Senator Towe**, the total cost of the House Republican plan would be \$10,560,000, \$3 million of which, he noted, would be funded by HB 20 monies. He said the total cost of the plans to the General Fund would be \$7.6 million for the Senate Democrats' plan and \$7.56 for the House Republicans' plan.

**Senator Doherty** said the primary difference was, then, the hit to local governments. The cost under the Senate plan would be \$2.8 million and the House plan would cost local governments an additional \$3 million of HB 20 reimbursement monies.

**Representative Gilbert** agreed. He noted the two plans were not "a long ways off on dollar amounts".

**Senator Towe** agreed. He stated that four fundamental issues of contention remained: the caps, the inclusion of commercial property, using mills and appraisals instead of just appraisals, and using HB 20 as a funding source. He suggested a compromise; the Senate Democrats could give up two and the House Republicans could give up two. He asked which two the Republicans would choose.

**Representative Gilbert** spoke to the use of HB 20 money. He said he was not at the Legislature to protect the government and needed to try to get the most dollars back to the taxpayers. He noted providing property tax relief did not really represent an additional cost to government, rather, he explained, it represented a reduction in the amount of the increase government had received from additional property taxes. He agreed the cap

did not substantially increase the cost of relief, but stated it was still important to address those people who had been hit extremely hard by property tax increases. He cited an example of a couple who owned .83 acres on Seeley Lake and whose total property tax liability increased from \$2773 in 1992 to \$8757 in 1993. **Representative Gilbert** said \$500 might help offset that burden a little but it might not be significant enough to make it unnecessary to borrow money to pay those taxes. He stated the state should not put people into the position of having to borrow money to pay taxes.

**Senator Towe** noted that property on Seeley Lake was valued at least at \$453,000. He stated giving benefits to people who have \$453,000 lake front property or to commercial property owners would make it difficult for him to justify the \$19 million the Legislature had taken away from Montana's school children and the \$7.5 million it had taken away from the medically needy. He said he was "trying to reach some middle ground" and to recognize the House Republicans' interests and concerns. He suggested that the Committee focus on the four items of contention. He stated the Senate Democrats would not give up on all four of those items and asked the House Republicans what they would offer.

**Representative Gilbert** replied he could not make any major adjustments without talking to his caucus. **Senator Towe** agreed that was the case with the Senate Democrats' caucus as well. He suggested, however, that the Committee work on a proposal to take back to committee members' respective caucuses.

**Representative Gilbert** said he suspected the House Republican caucus would not be interested in giving up the inclusion of commercial, the total tax liability approach, or the funding. He noted the one area of compromise might be the cap provision.

**Senator Towe** noted that was the one provision that cost no money. **Representative Gilbert** responded the issue at hand was no longer money since the money in the two proposals was "awfully close together". He stated the issue was really what the Legislature wanted to do for the people and how the tax relief should be implemented.

**Senator Towe** asked whether the House Republicans would concede the commercial and cap issues if the Senate Democrats conceded the mills and the funding source. **Representative Gilbert** replied he did not think so.

**Senator Towe** stated he was not sure the Senate Democratic caucus would agree to that proposal anyway. **Representative Gilbert** stated, however, he thought it worth trying. He repeated that he did not like the precedent for tax policy that would be set if commercial properties were removed from HB 29. Although, he noted, he knew that **Senator Towe** did like that precedent.

**Senator Towe** asked whether the House Republicans would concede



the commercial if the Senate Democrats would accede to including the increase in millage along with valuation. **Representatives Gilbert and Foster** both replied no.

**Representative Gilbert** stated it was necessary for the committee members to go back to their respective caucuses, explain the negotiations and ask for further suggestions. He noted he did not want to drag out the proceedings any longer than necessary, especially since the two proposals were "fairly close together".

**Senator Towe** responded he was afraid the Legislature would adjourn *sine die* and Montanans would not receive any tax benefits if the committee members went back to their respective caucuses without a proposal. He stated he did not want to see that happen and repeated the Committee needed to develop at least a tentative proposal to take back to the caucuses.

**Representative Gilbert** agreed that the Legislature needed to come to some agreement on property tax relief. He stated he would "hate to be that individual who said no" and caused the negotiations to break down, not only, he said, for the sake of the public but also for the sake of Montana's representative form of government. He stated if the Committee could not adequately address the issue of property tax relief, it would be "well addressed for [them] next November". He repeated he did not think that the two proposals were that far apart money-wise, even though he and **Senator Towe** were a long way apart philosophically.

**Senator Towe** stated he could not go back to his caucus and ask them to concede both the commercial and the mill levy inclusion. He expressed, however, his willingness to try one or the other as long as **Representative Gilbert** was willing to try one or the other. **Representative Gilbert** replied he could not do that.

**Senator Towe** responded he thought the Committee was wasting its time.

Because the numbers were so close, **Senator Doherty** stated he thought it worthwhile and necessary for committee members to step away from the negotiating table and confer with their caucuses. He stated he, like **Representative Gilbert**, wanted to reach agreement. He repeated the two positions were close. He said the House Republicans knew the Senate Democrats objections to commercial property; the residential property taxpayers have been picking up a greater burden in Montana ever since the Legislature started handing out tax breaks 10 years ago. He stated everyone would like to hold the responsible entities accountable for increases and to educate voters whether it be by using appraisal value or using the redistribution formula. He noted that was a common thread and there might be some flexibility on that issue. He stated the Committee was too close to agreement to "throw the gauntlet down and walk away".

**Senator Towe** suggested a five minute recess. He said after that

short recess it might be apparent that it was necessary to go to caucus.

**Representative Gilbert** agreed with **Senator Doherty** that it was not the time to throw down the gauntlet. He noted when he said he could not do something, that did not mean his caucus could not. He said he was not sure that a five minute recess was adequate. He urged that no one even consider *sine die* until the Committee arrived at a resolution and expressed his hope that it would not be used as an implied threat since it would be a "very serious mistake". He stated it was the Committee's obligation to try to negotiate a solution and expressed his willingness to stay until midnight.

**Senator Towe** said he had hoped that the House Republicans could suggest a proposal that they would be willing to recommend to their caucus. He noted he and **Senator Doherty** would be willing to do the same thing. Then, he said, if the caucuses turned down the proposal, the Committee would have made its "best effort". He said he would like to have **Representatives Gilbert** and **Foster** suggest a proposal that he could recommend to the Senate Democrats. He repeated, however, he could not go to caucus and recommend that the Senate Democrats concede both the commercial and the mill levies. He stated he would recommend that his caucus concede on one issue if **Representative Gilbert** or **Foster** would recommend their caucus concede on one.

**Representative Gilbert** suggested committee members take a 10 minute break and then reconvene to decide whether there were some issues that committee members could take to their respective caucuses.

#### Recess and Reconvene:

**Senator Towe** recessed the meeting at 5:35 p.m. He reconvened the Committee at 5:52 p.m. with all members present.

#### Discussion:

**Senator Gage** observed that from his perspective there were only three not four areas of contention because the funding source and the inclusion of millage were inextricably tied together. He stated he did not feel the state was justified in using \$3 million in HB 20 money unless the increase in both mills and appraisals were used to calculate property tax relief. He explained if that money was taken from local governments it should be used to address the increases in property taxes caused by those decisions made at the local level.

**Representative Gilbert** stated the actual progress that the Committee had made since the Committee was first called to order needed to be addressed. He stated House Republicans had moved

from 100 percent of the excess to 50 percent, they had agreed to limit the expanded low income eligibility to 1994 only, they had moved from cash vouchers to tax credits, and they had reduced the total amount of tax relief in their proposal from \$35 million to \$11 or \$12 million. **Representative Gilbert** said he and **Representative Foster** had moved quite a bit without asking for anything in return, and, he stated, there had not been a corresponding amount of movement from the Senate side. He noted the points that he had conceded were logical steps that did not "give his caucus heartburn". He agreed with **Senator Gage** that the increase in mills needed to be tied to the HB 20 funding in order to address the actual problem caused by counties who had taken advantage of the new money. He stated that the House Republicans felt it was absolutely necessary that appraisal and mills stay together, and that the HB 20 funding be used because it was the logical funding source for the additional tax credits in the House proposal. He stated it was absolutely necessary for commercial to be included with a \$200 cap and a \$50 minimum since main street businesses deserved the Legislature's concern and help. He noted that the owner-occupied requirement for residential property would provide a funding increase from out-of-staters because they would pay considerably higher tax on their homes. He agreed to a \$1,000 cap on residential rebates which, he said, would limit the rebates people with expensive houses would receive. He stated he was "more than willing" to take that proposal to his caucus and hoped the Senate Democrats would take it to theirs. He asked whether **Senators Doherty** or **Towe** had another proposal or were willing to agree to the one he had just outlined.

**Senator Towe** expressed his disappointment; he said of the four issues of disagreement; **Representative Gilbert** had been unwilling to compromise on any one except possibly the \$1000 cap which, he noted, was next to nothing. He stated if the House Republicans really wanted to settle the matter of property tax relief they would have to recommend either the commercial or the mill levy to their caucus. He added, however, he would take their proposal to his caucus even though he already knew what the response would be.

**Representative Gilbert** stated **Senator Towe** had not listened to his opening comments. He repeated all of the points on which the House Republicans had already compromised: the move from 100 percent to 50 percent, from vouchers to credits, from all class four residents to owner-occupied, and the agreement on a cap. He stated there were 10 issues, Senate Democrats had conceded one, House Republicans had conceded five, and only four issues, although, he noted, Republicans believed that only three issues remained.

**Senator Towe** replied the Senate Democrats had, in their amendments to HB 29, conceded the issue of an income test for any rebates in good faith, which, he noted, was the "one big thing most Democrats wanted". He stated they had also moved from the

25 percent to the 10 percent threshold. In addition, he noted, there had been a great deal of sentiment against any kind of credit, but the Senate Democrats had agreed to \$10 million worth of property tax relief. He stated Senate Democrats had "come a long ways" and needed to see some movement from the House side in order to make continued negotiation possible.

**Representative Gilbert** credited the Senate Democrats with at least acknowledging that the massive property tax increases were a problem. He said he had addressed his previous comments to the progress the Committee had made since that morning when the House Republicans had brought their proposal to the table and the Senate Democrats theirs. He stated the Senate Democrats had not yet moved off of their proposal and the House Republicans had.

**Senator Doherty** stated the Senate Democrats had moved off the proposal they had brought to the free conference committee table: they had agreed to double the amount of money it contained from \$4.8 to \$10 million; they had moved from a 25 percent to a 10 percent threshold so that property tax relief would go to more of those people the House Republicans wanted to address. He reminded **Representative Gilbert** that his initial position had been that a lot of items of difference existed but that those differences should not be allowed to trip up the process. He added listing and comparing the specific concessions was not at all a productive approach to resolving the issue at hand. He stated there had been significant movement on both sides, and, he said, the Committee was at the point where it had a limited amount of money to spend and needed to figure out the variables. **Senator Doherty** noted the committee had come real close on a number of those variables. He suggested the Committee should recess and committee members should go back to their respective caucuses to get a little more direction as to how serious their caucuses were about commercial, about mills versus appraised values and the funding source. He noted **Senator Gage** was right when he said using the HB 20 money on top of the \$2.8 million for low income would represent a double hit for local governments.

**Representative Gilbert** stated there was a certain danger involved in going to caucuses because of the way they respond "on the day they are supposed to be going home, hours after they were supposed to be going home". He suggested another short break might be more appropriate so that he and **Representative Foster** could talk to the people involved and maybe some caucus members to see if it was possible to come to some conclusions.

**Senator Doherty** offered up a possible "item of discussion" for the House Republican caucus "to chew on", which, he emphasized, he was not putting on the table as a formal offer. He posed the possibility that the Senate Democrats could concede on the issue of millage and the House Republicans could concede on the issue of commercial.

**Senator Towe** recommended that **Representative Gilbert** take **Senator**

**Doherty's** item of discussion to his caucus while they took it to theirs.

**Representative Gilbert** asked **Senator Doherty** whether he was tying the issue of appraisal and millage to the HB 20 funding. He noted if those issues were not connected, those counties would be, in effect, rewarded.

**Senator Towe** asked whether **Representative Gilbert** was referring to using HB 20 as a one-time funding source. **Representative Gilbert** replied he was referring to a permanent entitlement to the program. He repeated he would rather have a quick visit with "some people", reconvene, and then go to caucus. He asked **Senator Doherty** exactly what he meant by conceding on the issue of commercial: whether it was just giving up the tax credits but still hold to the 1992 plus 10 percent, or whether it was that commercial would pay the full load with the 1993 appraisals and mills. **Senator Doherty** replied commercial would pay the full load.

**Representative Gilbert** noted he did not have to talk to his caucus about that issue. He noted, however, he was willing to "do a quick visit with some people". He said the Committee was getting closer and he did not want the negotiations to fall apart and, he added, it would be a good idea to go to caucus if there were some other things that could be ironed out in the mean time.

#### Recess and Reconvene:

**Senator Towe** recessed the Committee at 6:10 p.m. He reconvened the meeting at 6:25 p.m. with all members present.

#### Discussion:

**Representative Gilbert** stated he had a four point proposal for committee members to take to their respective caucuses. One, he stated he and **Representative Foster** were willing to reduce the HB 20 funding by one-half and let that half apply to FY95 and FY96 and then sunset. That, he noted, should relieve some local governments' concerns. Two, he stated they were willing to agree to a \$1,000 cap on residential property tax relief. Three, he stated appraisal and mill increases would stay tied together. Four, he stated commercial business would remain in the program at 1992 plus 10 with the \$50 minimum and \$200 cap. Of course, he added, the other things the Committee had already agreed upon would remain.

**Senator Towe** commented that both sides had made many concessions during the entire legislative process surrounding the issue of property tax relief. He noted, however, that the Senate Democrats had put an "an awful lot" on the table since the proceeding had been opened that evening. He stated unless the

House Republicans were prepared to concede on commercial property, he did not see the Senate Democrats moving from their stated position. He noted the House Republicans caucus should be aware of that situation.

**Representative Gilbert** replied he would relay that message to his caucus. He stated, however, it was unfortunate that the negotiations should come to that point because he could not nor could his caucus turn its back on main street business in Montana. He noted corporations were taxpayers and individuals in the eyes of the law, and, he added, they deserved the same treatment that individuals deserved. He stated he would hate to see the negotiations fall apart because House Republicans were trying to help the taxpayers, be they individuals or small business people in Montana. The government, he added, always seemed to take care of itself and, he said, the proposal he had just outlined would not hurt any additional services and would help local governments. He suggested the Committee recess so that its members could go talk to their caucuses to discuss the issue and find out what they "really want to do".

**Representative Driscoll** asked that the costs of the two programs to the state General Fund be outlined before the Committee recessed so that he could inform his caucus.

After a discussion between **Senator Towe** and **Representative Foster** it was determined that the cost to the state for this biennium was \$11.6 million for the House proposal and \$7.6 million for the Senate proposal. Addressing the Republican proposal, **Representative Foster** said that residential and commercial rebates would total \$9.3 million, the low income program would cost \$1.164 million and the \$1.125 million appropriation already in HB 29, minus the little less than \$2 million the state would receive from the HB 20 money. Addressing the Senate Democrat proposal, **Senator Towe** said the residential rebate would total \$5.298 million, the low income would cost \$1.164, and the \$1.125 million appropriation in HB 29.

**Senator Towe** mentioned that the total amount of money in each package also should reflect the \$2.4 million that counties would have to absorb in 1994 because of the expansion of the low income eligibility. He noted that if that cost were also considered, the Senate package would total about \$10 million and the House package \$13.9 million.

**Representative Driscoll** asked whether the Senate Democrats really wanted to keep the "ring around the rosy" money associated with HB 20 in property tax relief. **Senator Towe** replied he did not think so. He added, however, that the major stumbling block was the issue of commercial property.

**Recess and Reconvene:**

**Senator Towe** recessed the Committee at 6:35. He reconvened the meeting at 7:12 p.m. with all members present.

**Discussion:**

**Representative Gilbert** informed the Committee that the House Republican caucus had decided it could not accept the compromise suggested by **Senator Doherty**.

**Senator Towe** asked whether the House Republicans had developed a counter proposal. **Representative Gilbert** replied no. He stated the House Committee had "counter proposed all afternoon, late into the evening". In addition, he said, the House Republicans had been trying to reach resolution on the issue of property tax relief for almost two weeks, but, he noted, instead the issue was being addressed in just one day.

**Representative Driscoll** reported the biggest concern the House Democrats had expressed was the need to keep the ending fund balance up at least around \$17 million. Otherwise, he explained, the current uncertainty surrounding oil prices and the possible inaccuracy of the revenue estimates and projections on the LFA budget sheets could result in an unbalanced budget before the regular session. He noted that holding the General Fund balance at \$17 million would leave only \$9 million to spend on this program. He emphasized that House Democrats were willing to spend that \$9 million. He added, however, if a property tax relief program were to cost more, it would be necessary to use HB 20 as a partial funding source.

**Senator Gage** stated he had nothing to report from his caucus apart from what the House Republicans had already indicated. He emphasized that the Senate Republicans felt it very important that commercial be included in any property tax relief package.

**Senator Towe** expressed his concern that the negotiations were not making any progress. He reviewed the negotiation process and stated both sides had made some sincere efforts to resolve the areas of contention surrounding the issue of property tax relief. He noted, however, that of the final four items of discussion, only two were really standing in the way of an agreement: the mill levies and the commercial. He expressed his appreciation that the House Republicans had agreed to the minor concession of a \$1,000 cap and had proposed taking only one-half of the original \$3.9 million from the HB 20 monies and placing a sunset on that entitlement. **Senator Towe** then offered a possible compromise on the issue of commercial property. He noted there was \$2.7 million of commercial property tax relief in the Republican package. He proposed appropriating \$1.4 million to either the Governor's Office or the Department of Commerce (DOC) to be used to help business in any way that the House Republicans

deemed appropriate. He asked if the House Republicans would move on the issue of millage if Senate Democrats agreed to that action.

**Representative Gilbert** responded that the proposal that **Senator Towe** had just outlined illustrated that Senate Democrats were not willing to recognize the importance of small business to Montana's economic structure when the issue was one of fairness in taxation. He asked **Senator Towe** if that was his "last and best offer".

**Senator Doherty** asked whether **Representative Gilbert** understood the possibilities the \$1.4 million appropriation offered for small business tax relief. He stated that amount could be directly applied to property tax relief for commercial entities in Montana. He emphasized that the Senate Democrats were willing to meet House Republicans halfway on the issue of commercial property tax relief.

**Senator Towe** added that House Republicans could design any program they wanted around the \$1.4 million; if they wanted to use it in a property tax rebate the necessary threshold and cap could be determined. The House Republicans could also opt, he noted, to allow the Governor or DOC to use it in some other fashion. He repeated that the Senate Democrats were willing to give House Republicans half, he added, however, it was necessary for the House Republicans to agree to limit to the appraised value only.

**Representative Gilbert** asked whether **Senator Towe** was indicating that he was willing to calculate the increase in both appraisal and millage for residential properties but limit the increase to appraisals for small businesses.

**Senator Towe** replied no, the Senate Democrats maintained their position of appraised value only for owner-occupied residences. He noted, however, the House Republicans could choose to use both appraisals and mills for commercial properties as long as the other parameters of their program were structured to keep the cost at \$1.4 million. He noted the Committee could talk about the caps and the HB 20 funding source in the House Republican proposal.

**Senator Doherty** stated he had been impressed by **Representative Gilbert's** sincerity about the principle of commercial property tax relief and the need to send a message. He explained that everybody had admitted that a \$200 rebate would be "no big deal" for many businesses, although for some, he agreed, that money might be "a big deal". He said the Senate Democrat's offer responded to the principle of providing property tax relief for commercial property taxpayers in Montana and acknowledged **Representative Gilbert's** commitment to that principle. **Senator Doherty** said that many people in his caucus were also "real nervous" about the ending fund balance, the softness of the



numbers, and the specter of another special session. He repeated, however, they were willing to try to respond to the principle at hand.

**Representative Gilbert** noted the Senate Democrat proposal was to allocate \$1.4 million to the Governor's office or DOC to be used as property tax relief for small business. He asked **Senator Doherty** whether that offer was contingent upon the House Republicans agreeing to use appraisal only on residential property. **Senator Doherty** replied yes.

**Representative Gilbert** stated that offer was not acceptable. He stated it was getting late and the Committee was getting tired, and the House Republican caucus had its position. He asked again whether that was the "best last offer".

**Senator Towe** responded that was as much as he and **Senator Doherty** had authority to offer. He said before negotiations were totally abandoned he would like to ask **Senator Van Valkenburg**, **President of the Senate**, or **Representative Mercer**, **Speaker of the House**, whether either of them would like to address the Committee. He noted it might be time to move the discussion from "this Committee to some other level".

**Representative Gilbert** responded that although **Senator Towe's** request for comment was "perhaps proper", it indicated a certain lack of faith in the Committee and the conference committee procedure. He asked whether **Senator Towe** believed that since the six committee members had been unable to figure out a solution then two people should. He noted he "hoped that was not what he was hearing".

**Senator Towe** replied no. He asked whether **Representative Gilbert** had a better suggestion other than simply to fold the conference committee negotiations and report there was no agreement.

**Representative Gilbert** responded he might have a better solution but indicated that he was "certainly willing to listen".

**President Van Valkenburg**, **President of the Senate**, recalled that when he first began his service in the Legislature, the legislative leadership often engaged in summitry over the big issues in the governor's conference room. He noted that at some point the caucuses began to be "very uneasy" with that kind of summitry and did not appreciate the fact that the leaders made deals without the involvement of the caucuses. He stated, however, that the issue of property tax relief was so important that there was value in the leadership of both houses attempting to iron out a solution. He offered to sit down with the **Speaker Mercer** and the other legislative leaders to assist in negotiating a possible compromise. He stated he did not want to see the special session end in a manner that the public would perceive as the Legislature's inability to resolve a very small difference.

**Speaker Mercer** stated that he had dedicated much of the special session to the issue of property tax relief and had not been very happy about issues slow progress through the legislative process. He expressed his willingness to sit down and discuss the issue with **President Van Valkenburg** since the members of the House were anxious to go home. He stated, however, the House Republicans would not differentiate between those people who had experienced tax increases because of mills or those people who had experienced tax increases because of appraisal, "period". He stated House Republicans also felt very strongly about giving some help to small business and had inserted the \$200 cap in order to reduce the tax benefits to large corporations. He stated those two principles went to the "very heart" of what the House Republicans believed in and were simply issues they could not concede. He noted he would certainly sit down with the other members of the legislative leadership.

**Representative Driscoll** asked the legislative leadership to consider the possibility of developing a program which would use the \$1.4 million to grant relief to business people who rented. He stated many small businesses rented instead of owned their business space like in shopping malls. He noted the hour might be too late, but said he had made the suggestion because there were "thousands and thousands of businessmen" who do not pay real taxes but pay real rent.

**Senator Towe** suggested the Committee temporarily recess and wait to see if a possible solution could be hammered out. He said he did not think the Committee should adjourn until an agreement had been reached.

#### Recess and Reconvene:

**Senator Towe** recessed the Committee at 7:30 p.m. He reconvened the meeting at 7:54 p.m. so the Committee could hear the comments of the legislative leadership.

#### Discussion:

**President Van Valkenburg** explained that as the free conference committee on HB 29 had reached the point where he had feared an impasse, he had suggested and **Speaker Mercer** had agreed to convene the legislative leadership in order to see if the remaining differences could possibly be resolved and the discussions on property tax relief could possibly be successfully concluded. He noted he had watched almost the entire proceedings and stated he thought the Senate Democrats had done everything they could to try and reach a compromise with the House Republicans. In particular, **President Van Valkenburg** said, the last proposal, which agreed to reserve one-half of the money the House Republicans were seeking for commercial business property for commercial property tax relief, was a genuine and sincere

effort to resolve these issues. **President Van Valkenburg** stated he was fearful that the negotiations had reached a point where there was no potential solution unless the House Republicans made "some movement of considerable consequence". He noted a resolution was "just inches away" and asked **Speaker Mercer** if he would like to comment.

**Speaker Mercer** stated this was a frustrating moment and added there were many things about the entire property tax debate that he thought had "been totally mishandled" if property tax relief were to have been "seriously addressed" during the special session. He noted the Senate Democrats had recognized that commercial property and small town business needed to be addressed, a move, which he said was "good". He stated, however, that Senate Democrats were proposing that commercial property-tax relief should come at the expense of Montana families whose property taxes had increased because of millage increases which were totally beyond their control. He said House Republicans could not understand how Senate Democrats could treat Montana families differently just because their property taxes went up for different reasons. He stated people could not pay their property taxes with the value of their house; many people could not pay the increase in property taxes due to increased value or increased millage because they did not have any additional income. On the issue of property taxes, he agreed that the Senate had given and the House had given, but, he stated, the taxpayers had given \$134 million to government as a result of increased property taxes. **Speaker Mercer** said that money represented new revenue to government, and, he noted, the Republicans continued to be astonished with the "inability" of the Democratic party to recognize that this was a gigantic increase and that some of the money should be returned to taxpayers. He stated he found it ironic that the Democrats were unwilling to agree to a two percent across-the-board cut to government, but were hesitant to fully address the fact that property tax increases were taking far greater than two percent cuts from property owners. He said he recognized the Senate Democrat's concession on small business, but, he stated, that concession did not address the needs of those people whose property taxes had increased as a result of mills and, as such, were completely out of their control.

**President Van Valkenburg** stated the Senate Democrats had proposed \$10 million dollars of property tax relief for Montanans and had tried very hard to provide tax relief for those people who were most impacted by the property tax increases that had occurred. He noted that much of the increase in property tax had occurred because of the philosophy House Republicans had forced on those people in the last session through HB 667, the underfunding of schools and the requirement that permissive levies be put in place without a vote of the people. He stated House Republicans could not escape responsibility for pushing that philosophy through. He repeated, however, that an agreement was still possible on HB 29 if House Republicans were not so wedded to the

idea of denying Montanans property tax relief unless commercial enterprises were included in a property tax relief program. He noted business would not really benefit from such a program apart from the assertion of the Republican principle in the matter. He noted he did not know what was possible if House Republicans remained unwilling to move off of that position.

**Speaker Mercer** reminded **President Van Valkenburg** that the Democratic Senate had endorsed HB 667 and that the concept of a permissive levy had not originated in the House. He stated the blame for property tax increases attributable to HB 667 should be equally shared. He stated House Republicans were not trying to hide from any blame, rather, he said, they were trying to help people. He stated **President Van Valkenburg** was attempting to assert that the problem was the House Republican's desire to protect commercial interests. He stated the Senate Democrats' conferees had suggested that they wanted to help those whose property taxes went up because of appraisal and deny those people's whose went up as a result of mills. He repeated that House Republicans did not want to treat those Montanans differently. **Speaker Mercer** stated, if Senate Democrats remained insistent and unwilling to move any further, he would walk back to the House and inform the representatives that there would be no agreement on the issue of property tax relief and the session should adjourn. He stated it would be a terrible mistake for the Legislature "to walk out of here" without addressing that issue; but, he added, he refused to ignore anyone in Montana because that would be unfair and would contribute to the current anti-government movement. He stated he did not know how **President Van Valkenburg** justified differentiating between people whose property tax increased because of mills and those whose property tax increased because of appraisals.

**President Van Valkenburg** stated a very substantial difference did exist between the people who had experienced increases because of appraisals and people who had experienced increases because of mills. He said that difference had been clearly established during the deliberations of the free conference committee on HB 29. He explained that difference resided mainly in the responsibility of people to be in contact, to watch over, and to demand accountability from their local governments. He stated no reason existed that people in other parts of the state should be forced to "pick up the tab" for those people who were not vigilant with their own local officials. He repeated, however, the Senate conferees on HB 29 were not, finally, trying to separate those people. Senate Democrats, he stated, were asking only that House Republicans compromise on another issue if they continued to insist on relief for commercial properties. He stated both **Senators Doherty** and **Towe** had indicated their willingness to compromise on either the issue of millage or that of commercial property if the House Republicans had been willing to compromise on the other. **President Van Valkenburg** noted, however, that the people representing the House Republicans, especially, had insisted on the inclusion of the commercial side. He

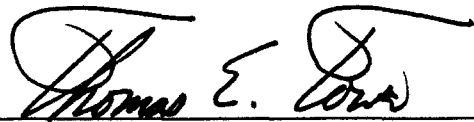
noted that point was what caused negotiations to break down and what was preventing Montanans from getting \$10 million of property tax relief.

**Speaker Mercer** stated he did not think it was necessary for **President Van Valkenburg** to "spin [his] political webs" at such a meeting. He noted, it was obvious that **President Van Valkenburg** would claim that the Republicans did not want property tax relief, but, he stated, the evidence was "totally and absolutely contrary" to that position. He stated that a newspaper had quoted **President Van Valkenburg** as saying he was not aware that property taxes were not a problem prior to the special session, and, he added, the Senate had "sat on" property tax bills "until here at the last hours of the session". **Speaker Mercer** stated **President Van Valkenburg** was trying to play one taxpayer against the other and small business against people who have millage increases "in an effort to try to blame [Republicans] for not giving property tax relief". He asked whether it was wrong "to want to take care of small business" and "to take care of people who got property tax increases because of mills" and "to take care of people who got property tax increases because of appraisal". **Speaker Mercer** said **President Van Valkenburg** could do everything he wanted to affix the blame on Republicans, but, he stated, the only reason there would not be property tax relief in this session was the Senate Democrats' refusal to accept the House Republicans proposal.

**President Van Valkenburg** stated it was a sad day when a session ended in such a manner. He stated the issue of property tax relief could be resolved if **Speaker Mercer** actually wanted it to be resolved. He stated, however, **Speaker Mercer** seemed far more desirous to be in a position to blame someone for the lack of property tax relief than to actually provide property tax relief to Montanans. He asked if anyone else would like to comment.

#### ADJOURNMENT

Adjournment: 8:10 p.m.



SENATOR TOM TOWE, Chair



BETH E. SATRE, Secretary

## ROLL CALL

FREE CONFERENCE COMMITTEE \_\_\_\_\_ HB 29 \_\_\_\_\_  
DATE 12/18/93 \_\_\_\_\_

[illegible]

1.  
Annual (2 tax payments) x 150% = Biennial

**REVENUE IMPACTS OF ALTERNATIVE PROPERTY TAX REBATE PROPOSALS**  
**ASSESSED VALUE INCREASED BY 10% OR MORE FOR ELIGIBILITY**  
 (Assumes Minimum Rebate of \$25)

**FULL COST, NO ADJUSTMENTS** *residential*

Cap Level	Percentage of Excess Allowed as Rebate		
	25%	50%	75%
\$0	2,770,865	6,654,560	10,439,925
\$250	2,708,110	6,158,770	9,072,085
\$500	2,758,300	6,529,050	10,001,600
\$1,000	2,769,875	6,629,420	10,340,125

EXHIBIT NO. 1A  
 DATE December 18, 1993  
 BILL NO. HB 29 - Fiscal Control  
Committee

**FULL COST, ADJUSTED FOR OWNER-OCCUPANCY** *9 months*

Cap Level	Percentage of Excess Allowed as Rebate		
	25%	50%	75%
\$0	1,662,519	3,992,736	6,263,955
\$250	1,624,866	3,695,262	5,443,251
\$500	1,654,980	3,917,430	6,000,960
\$1,000	1,661,925	3,977,652	6,204,075

**FULL COST, ADJ. FOR OWNER-OCCUPANCY, PIT CREDIT**

Cap Level	Percentage of Excess Allowed as Rebate		
	25%	50%	75%
\$0	1,496,267	3,593,462	5,637,560
\$250	1,462,379	3,325,736	4,898,926
\$500	1,489,482	3,525,687	5,400,864
\$1,000	1,495,733	3,579,887	5,583,668

Office of Research and Information  
 Department of Revenue

A:\OPTIONS

**REVENUE IMPACTS OF ALTERNATIVE PROPERTY TAX REBATE PROPOSALS**  
**ASSESSED VALUE INCREASED BY 25% OR MORE FOR ELIGIBILITY**  
 (Assumes Minimum Rebate of \$25)

**FULL COST, NO ADJUSTMENTS**

Cap Level	Percentage of Excess Allowed as Rebate		
	25%	50%	75%
\$0	1,325,720	3,224,555	5,097,420
\$250	1,291,475	2,969,860	4,398,135
\$500	1,319,900	3,156,065	4,869,380
\$1,000	1,325,720	3,212,910	5,043,265

EXHIBIT NO. 18  
 DATE December 18, 1993  
 BILL NO. HB 29 - Force Conf.  
 Committee

**FULL COST, ADJUSTED FOR OWNER-OCCUPANCY**

Cap Level	Percentage of Excess Allowed as Rebate		
	25%	50%	75%
\$0	795,432	1,934,733	3,058,452
\$250	774,885	1,781,916	2,638,881
\$500	791,940	1,893,639	2,921,628
\$1,000	795,432	1,927,746	3,025,959

**FULL COST, ADJ. FOR OWNER-OCCUPANCY, PIT CREDIT**

Cap Level	Percentage of Excess Allowed as Rebate		
	25%	50%	75%
\$0	715,889	1,741,260	2,752,607
\$250	697,397	1,603,724	2,374,993
\$500	712,746	1,704,275	2,629,465
\$1,000	715,889	1,734,971	2,723,363

Biennial  
 2,611,230  
 2,556,412

Office of Research and Information  
 Department of Revenue

A: OPTIONS

*All Residential*  
 \$1,193,148      \$2,902,099      \$4,587,278  
 \$4,353,148  
 biennial



# Impact of Adjusting 1993 Increase in Residential Property Tax Liability - Owner Occupied ALL Residential Property

Credit is 50% of Amount of Taxes Calculated on the Increase in Appraised Value in Excess of 25%  
(Minimum Credit of \$25)

County	Total Parcels	Total 1992 Tax	Total 1993 Tax	# Impacted	Total Relief	Avg. Relief
Beaverhead	3,980	1,412,875	1,806,080	324	20,420	63
Big Horn	3,155	793,190	738,930	27	1,485	55
Blaine	2,600	760,525	769,890	159	9,734	61
Broadwater	1,905	506,380	618,735	0	0	0
Carbon	1,685	582,165	619,470	14	1,377	102
Carter	1,075	273,190	252,670	8	343	42
Cascade	26,065	18,612,005	19,761,465	1,912	183,643	96
Chouteau	3,820	1,336,085	1,251,210	46	3,011	66
Custer	5,070	2,341,670	2,566,340	316	19,659	62
Daniels	1,900	610,425	566,440	8	1,102	136
Dawson	4,525	1,862,050	1,816,430	27	2,638	98
Deer Lodge	4,705	1,853,245	2,202,285	230	12,917	56
Fallon	1,450	411,100	468,160	24	1,320	54
Fergus	7,005	2,307,915	2,232,280	122	7,806	64
Flathead	32,160	19,924,255	23,545,290	3,445	335,996	98
Gallatin	20,665	13,322,660	14,561,895	2,117	182,885	86
Garfield	1,045	259,910	261,810	3	713	264
Glacier	3,440	1,098,770	1,464,565	132	8,953	68
Golden Valley	650	131,985	124,535	5	1,509	280
Granite	3,050	496,165	744,345	200	12,166	61
Hill	6,905	3,141,340	3,557,175	400	24,662	62
Jefferson	4,085	1,539,265	1,903,490	170	13,044	77
Judith Basin	2,440	469,520	468,715	5	157	29
Lake	11,365	5,975,255	7,555,210	1,620	209,685	129
Lewis And Clark	21,580	13,146,635	14,956,705	1,326	100,184	76
Liberty	1,180	487,495	441,635	8	254	31
Lincoln	10,670	2,934,545	3,388,715	405	20,723	51
Madison	5,340	1,797,250	1,899,620	197	30,407	154
McCone	1,490	450,545	423,410	11	491	46
Meagher	1,725	330,740	365,825	95	4,390	46
Mineral	2,205	552,545	769,060	246	15,935	65
Missoula	30,640	25,618,315	28,793,240	780	73,305	94
Musselshell	3,165	731,985	700,495	0	0	0
Park	6,610	3,442,015	3,713,165	410	28,056	68
Petroleum	415	56,180	53,285	3	70	26
Phillips	2,855	743,180	853,030	62	3,127	50
Pondera	2,855	1,201,080	1,156,030	43	3,259	75
Powder River	1,180	478,765	501,405	27	1,663	62
Powell	2,760	993,565	1,114,180	127	7,271	57
Prairie	1,110	218,865	209,540	3	119	44
Ravalli	13,810	6,583,535	7,659,700	864	54,265	63
Richland	4,660	1,537,825	1,895,165	219	10,716	49
Roosevelt	3,990	941,255	1,053,960	27	1,288	48
Rosebud	3,825	703,750	698,250	3	192	71
Sanders	5,345	1,436,040	1,717,790	165	9,536	58
Sheridan	3,165	919,670	875,450	0	0	0
Silver Bow	14,990	8,893,170	9,497,015	1,863	133,647	72
Stillwater	3,960	1,509,005	1,710,630	127	7,301	58
Sweet Grass	1,490	801,850	731,815	11	891	83
Teton	3,370	1,503,195	1,328,765	24	1,426	59
Toole	2,860	971,755	943,760	132	7,430	56
Treasure	445	139,135	131,790	3	116	43
Valley	5,270	1,749,605	1,778,065	54	4,250	79
Wheatland	1,395	268,325	262,370	0	0	0
Wibaux	775	169,825	200,630	11	316	29
Yellowstone	45,475	29,576,350	33,204,950	1,874	128,415	69
<b>TOTAL</b>	<b>365,350</b>	<b>190,909,940</b>	<b>212,886,860</b>	<b>20,431</b>	<b>1,704,264</b>	<b>83</b>

## Impact of Adjusting 1993 Increase in Residential Property Tax Liability - Owner Occupied

## ALL Residential Property — Adjusted for Voted Mill Levies

Credit is 25% of Amount of Taxes in Excess of 125% of 1992 Tax Liability (Min \$25 / Max \$500 Credit)

County	Total Parcels	Total 1992 Tax	Total 1993 Tax	# Impacted	Total Relief	Avg. Relief
Beaverhead	3,980	1,412,875	1,806,080	311	15,560	50
Big Horn	3,155	793,190	738,930	14	583	42
Blaine	2,600	760,525	769,890	82	3,756	46
Broadwater	1,905	506,380	618,735	35	1,372	39
Carbon	1,685	582,165	619,470	14	926	66
Carter	1,075	273,190	252,670	3	95	32
Cascade	26,065	18,612,005	19,761,465	1,159	66,512	57
Chouteau	3,820	1,336,085	1,251,210	29	1,658	57
Custer	5,070	2,341,670	2,566,340	94	3,983	42
Daniels	1,900	610,425	566,440	5	575	115
Dawson	4,525	1,862,050	1,816,430	27	1,931	72
Deer Lodge	4,705	1,853,245	2,202,285	278	12,974	47
Fallon	1,450	411,100	468,160	32	1,585	50
Fergus	7,005	2,307,915	2,232,280	46	2,352	51
Flathead	32,160	19,924,255	23,545,290	2,368	171,212	72
Gallatin	20,665	13,322,660	14,561,895	1,191	66,890	56
Garfield	1,045	259,910	261,810	3	470	157
Glacier	3,440	1,098,770	1,464,565	357	20,666	58
Golden Valley	650	131,985	124,535	8	1,345	168
Granite	3,050	496,165	744,345	252	14,504	58
Hill	6,905	3,141,340	3,557,175	370	16,043	43
Jefferson	4,085	1,539,265	1,903,490	303	13,900	46
Judith Basin	2,440	469,520	468,715	8	246	31
Lake	11,365	5,975,255	7,555,210	1,081	86,846	80
Lewis And Clark	21,580	13,146,635	14,956,705	972	50,350	52
Liberty	1,180	487,495	441,635	6	251	42
Lincoln	10,670	2,934,545	3,388,715	235	11,070	47
Madison	5,340	1,797,250	1,899,620	122	17,323	142
McCone	1,490	450,545	423,410	5	173	35
Meagher	1,725	330,740	365,825	49	1,585	32
Mineral	2,205	552,545	769,060	170	8,756	52
Missoula	30,640	25,618,315	28,793,240	926	58,882	64
Musselshell	3,165	731,985	700,495	3	73	24
Park	6,610	3,442,015	3,713,165	349	18,060	52
Petroleum	415	56,180	53,285	0	0	-
Phillips	2,855	743,180	853,030	73	3,043	42
Pondera	2,855	1,201,080	1,156,030	40	2,422	61
Powder River	1,180	478,765	501,405	30	1,652	55
Powell	2,760	993,565	1,114,180	49	2,317	47
Prairie	1,110	218,865	209,540	3	97	32
Ravalli	13,810	6,583,535	7,659,700	570	26,247	46
Richland	4,660	1,537,825	1,895,165	308	12,749	41
Roosevelt	3,990	941,255	1,053,960	46	1,669	36
Rosebud	3,825	703,750	698,250	16	680	43
Sanders	5,345	1,436,040	1,717,790	151	6,807	45
Sheridan	3,165	919,670	875,450	0	0	-
Silver Bow	14,990	8,893,170	9,497,015	692	29,678	43
Stillwater	3,960	1,509,005	1,710,630	94	4,064	43
Sweet Grass	1,490	801,850	731,815	14	837	60
Teton	3,370	1,503,195	1,328,765	14	713	51
Toole	2,860	971,755	943,760	78	3,170	41
Treasure	445	139,135	131,790	3	124	41
Valley	5,270	1,749,605	1,778,065	30	1,553	52
Wheatland	1,395	268,325	262,370	0	0	-
Wibaux	775	169,825	200,630	8	284	35
Yellowstone	45,475	29,576,350	33,204,950	1,261	68,008	54
TOTAL	365,350	190,909,940	212,886,860	14,387	838,615	58

EXHIBIT T  
12-18-93  
HB 29

**Relief Provided Under Conference Committee Property Tax Relief Proposals  
BASED ON INCREASE IN APPRAISED VALUE**

**Greater Than 10% Increase in Appraised Value**

Cap Level	Rebate % of Amount in Excess of 10%					
	25%	50%	60%	70%	75%	100%
\$0	1,496,267	3,593,462	4,416,312	5,231,687	5,637,560	7,656,042
\$250	1,462,379	3,325,736	3,987,584	4,605,198	4,898,926	6,234,395
\$500	1,489,482	3,525,687	4,297,058	5,039,512	5,400,864	7,120,589
\$1,000	1,495,733	3,579,890	4,391,369	5,189,133	5,583,668	7,520,488

**Greater Than 15% Increase in Appraised Value**

Cap Level	Rebate % of Amount in Excess of 15%					
	25%	50%	60%	70%	75%	100%
\$0	1,153,059	2,782,982	3,424,899	4,062,404	4,379,713	5,950,897
\$250	1,125,355	2,570,044	3,083,581	3,565,188	3,793,613	4,828,197
\$500	1,147,538	2,727,572	3,327,882	3,908,768	4,190,608	5,525,024
\$1,000	1,152,716	2,771,939	3,404,703	4,027,509	4,335,428	5,840,076

**Greater Than 20% Increase in Appraised Value**

Cap Level	Rebate % of Amount in Excess of 20%					
	25%	50%	60%	70%	75%	100%
\$0	901,924	2,188,520	2,697,494	3,199,959	3,450,308	4,694,860
\$250	879,385	2,017,724	2,423,885	2,802,103	2,981,969	3,799,254
\$500	897,656	2,143,441	2,617,947	3,076,326	3,298,749	4,353,267
\$1,000	901,776	2,179,983	2,681,103	3,171,855	3,414,266	4,604,702

**Greater Than 25% Increase in Appraised Value**

Cap Level	Rebate % of Amount in Excess of 25%					
	25%	50%	60%	70%	75%	100%
\$0	715,889	1,741,260	2,148,309	2,551,362	2,752,607	3,752,914
\$250	697,397	1,603,724	1,927,824	2,230,295	2,374,993	3,034,846
\$500	712,746	1,704,275	2,083,425	2,449,813	2,629,465	3,477,843
\$1,000	715,889	1,734,971	2,135,265	2,528,634	2,723,363	3,678,947

Office of Research and Information  
Department of Revenue  
December 18, 1993

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EXHIBIT NO. 4  
DATE December 18, 1993  
FILE NO. Free Conference Committee HB 29

2 HB 29

<b>Relief Provided Under Conference Committee Property Tax Relief Proposals</b> <b>BASED ON INCREASE IN TAX LIABILITY</b>
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**Greater Than 10% Increase in Tax Liability**

Cap Level	Rebate % of Amount in Excess of 10%					
	25%	50%	60%	70%	75%	100%
\$0	1,823,707	4,387,141	5,385,336	6,372,203	6,863,616	9,309,362
\$250	1,782,356	4,081,604	4,901,791	5,669,498	6,036,098	7,704,563
\$500	1,814,721	4,304,440	5,240,174	6,144,104	6,584,903	8,698,288
\$1,000	1,822,865	4,369,170	5,352,275	6,317,690	6,795,776	9,143,960

**Greater Than 15% Increase in Tax Liability**

Cap Level	Rebate % of Amount in Excess of 15%					
	25%	50%	60%	70%	75%	100%
\$0	1,392,239	3,384,358	4,162,585	4,938,465	5,322,834	7,240,739
\$250	1,359,239	3,140,122	3,776,023	4,379,486	4,666,378	5,980,989
\$500	1,385,246	3,318,357	4,045,299	4,754,768	5,099,269	6,752,265
\$1,000	1,391,591	3,370,370	4,135,633	4,893,804	5,267,309	7,108,736

**Greater Than 20% Increase in Tax Liability**

Cap Level	Rebate % of Amount in Excess of 20%					
	25%	50%	60%	70%	75%	100%
\$0	1,074,659	2,638,975	3,250,490	3,861,211	4,161,988	5,668,491
\$250	1,047,913	2,441,853	2,939,633	3,412,103	3,634,502	4,666,777
\$500	1,069,367	2,585,485	3,156,721	3,712,055	3,981,218	5,274,245
\$1,000	1,074,203	2,628,393	3,229,203	3,824,707	4,116,407	5,561,509

**Greater Than 25% Increase in Tax Liability**

Cap Level	Rebate % of Amount in Excess of 25%					
	25%	50%	60%	70%	75%	100%
\$0	842,705	2,081,325	2,572,522	3,056,227	3,300,612	4,497,539
\$250	820,616	1,922,046	2,321,004	2,693,868	2,875,287	3,690,536
\$500	838,607	2,037,147	2,497,325	2,936,439	3,154,091	4,178,982
\$1,000	842,441	2,073,128	2,555,558	3,026,711	3,263,198	4,409,181

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Department of Revenue  
December 18, 1993

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EXHIBIT NO. 3

DATE December 18, 1993

BILL NO. HB 29 Free Conference Committee